KENTISH COUNCIL POLICY

Significant Accounting

Policy Number 02:03:2002

POLICY NUMBER	02:03:2002
OBJECTIVE	
STATUTORY AUTHORITY	
POLICY	Adopted 27 August 2002 — Minute 8.1.5 Amended 15 July 2008 — Minute 7.3.4 Amended 15 September 2015 — Minute 11.4.3

1. BASIS OF ACCOUNTING

Council will prepare an annual general purpose financial report that consists of Statements of Comprehensive Income, Financial Position, Changes in Equity, Cash Flows, and notes accompanying the financial statements. The general purpose financial report will comply with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the Local Government Act 1993 (LGA1993) (as amended).

The general purpose financial report of the Council is prepared on the accrual and going concern basis. The financial report is prepared under the historic cost convention, except where specifically stated

2. LOCAL GOVERNMENT REPORTING ENTITY

All entities controlled by Council that have material assets or liabilities, such as Special Committees of Management, are included in the annual financial report. All transactions between these entities and Council are eliminated in full.

3. REVENUE RECOGNITION

Rates, grants and contributions

Rates, grants and contributions (including developer contributions) are recognised as revenues when Council obtains control over the assets comprising these receipts.

Control over assets acquired from rates is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates. A provision for impairment on rates is generally not established as unpaid rates represents a charge against the rateable property that will be recovered when the property is next sold.

Revenue is recognised when Council obtains control of the contribution or the right to receive the contribution, it is probable that the economic benefit comprising the contribution will flow and the amount of the contribution can be measured reliably.

Control over granted assets is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and such assets are valued at their fair value at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is disclosed in note 6. The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided at balance date and conditions include a requirement to refund unused contributions. Revenue is then recognised as the various performance obligations under an arrangement are fulfilled. Council does not currently have any reciprocal grants.

Unreceived contributions over which Council has control are recognised as receivables.

Non-monetary Contributions
Non-monetary contributions (including developer contributions) with a value in excess of the recognition thresholds are recognised as revenue and as non-current assets. Non-monetary contributions below the thresholds are recorded as revenue.

User fees and fines
User fees and fines are recognised as revenue when the service has been provided, the payment is received, or when the penalty has been applied, whichever first occurs. A provision for impairment is recognised when collection in full is no longer probable.

Sale of property, plant and equipment, infrastructure
The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

Rent
Rents are recognised as revenue when the payment is due or the payment is received, whichever first occurs.

Interest
Interest is recognised progressively as it is earned.

Dividends
Dividend revenue is recognised when Council's right to receive payment is established.

4. INVENTORIES

Inventories are measured at the lower of cost and net realisable value.

5. INFRASTRUCTURE

Buildings, land improvements, plant and equipment, infrastructure and other assets having limited useful lives are systematically depreciated over their useful lives to the Council in a manner which reflects consumption of the service potential embodied in those assets. Estimates of remaining useful lives are made on a regular basis with major asset classes reassessed annually. Depreciation rates and methods are reviewed annually.

Land, heritage assets, artworks and road earthworks and formation costs are not depreciated on the basis that they are assessed as not having a limited useful life. The non-depreciation of road earthwork assets shall be reviewed at least at the end of each reporting period, to ensure that the accounting policy applied to particular earthwork assets reflects the most recent assessment of the useful lives of the assets, having regard to factors such as asset usage, physical deterioration and technical and commercial obsolescence.

Depreciation is recognised on a straight-line basis and reviewed each reporting period. The rate of depreciation reflects the consumption of the service potential of the asset. Major depreciation periods used are listed below:

Asset Category	**Useful Life**
Land	
land improvements	5 - 100 years
Buildings	
buildings	20 - 120 years
Plant and Equipment	
plant, machinery and equipment	2 - 30 years
fixtures, fittings and furniture	5 - 20 years
computers and telecommunications	3 - 5 years
Infrastructure	
Roads	
road surface - unsealed roads	4 - 10 years
road pavement - sub-base	200 years
road pavement - sealed basecourse	70 - 110 years
road surface - sealed roads	18 - 25 years
road kerb, channel	80 years
footpaths	80 years
Bridges	20 - 80 years
Stormwater	80 years
Other infrastructure	25 - 50 years

6. REPAIRS AND MAINTENANCE

Routine maintenance, repair costs, and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold the cost is capitalised and depreciated. The carrying value of the replaced asset is expensed.

7. BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred, except where they are capitalised as part of a qualifying asset constructed by Council. Where specific borrowings are obtained for the purpose of specific asset acquisition, the weighted average interest rate applicable to borrowings at balance date is used to determine the borrowing costs to be capitalised. No borrowing costs were capitalised during the period. Borrowing costs include interest on bank overdrafts and interest on borrowings.

8. RECOGNITION AND MEASUREMENT OF ASSETS

Acquisition and Recognition
Acquisitions of assets are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

Property, infrastructure, plant and equipment received in the form of contributions, are recognised as assets and revenues at fair value by Council valuation where that value exceeds the recognition thresholds for the respective asset class. Fair value is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.

Where assets are constructed by Council, cost includes all materials used in construction, direct labour, borrowing costs incurred during construction where applicable, and an appropriate share of directly attributable variable and fixed overheads.

The threshold limits detailed below are applied when recognising assets within an applicable asset class

Asset Category	**Threshold $'000**
Land	
land	10
land improvements	10
Buildings	
buildings	10
building improvements	10
Plant and Equipment	
plant, machinery and equipment	5
fixtures, fittings and furniture	5
computers and telecommunications	5
leased plant and equipment	5
Roads	
road pavements and seals	10
road substructure	10
road formation and earthworks	10
road kerb, channel and minor culverts	10
road other	10
Bridges	
bridges deck	10
bridges substructure	10
bridges other	10
Other Infrastructure	10
footpaths and cycleways	10
drainage	10
recreational, leisure and community facilities	10
waste management	10
parks, open space and streetscapes	10
off street car parks	10
other infrastructure <insert details>	10
Intangible assets	5

Subsequent to the initial recognition of assets, non-current physical assets, other than plant and equipment are measured at their fair value in accordance with AASB 116 Property, Plant and Equipment and AASB 13 Fair Value Measurement... At balance date, Council reviewed the carrying value of the individual classes of assets measured at fair value to ensure that each asset materially approximated its fair value. Where the carrying value materially differed from the fair value at balance date the class of asset was revalued.

In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis ranging from 3 to 5 years. The valuation is performed either by experienced council officers or independent experts.

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use on an asset result in changes to the permissible or practical highest and best use of the asset.

Where the assets are revalued, the revaluation increments are credited directly to the asset revaluation reserve except to the extent that an increment reverses a prior year decrement for that class of asset that had been recognised as an expense in which case the increment is recognised as revenue up to the amount of the expense. Revaluation decrements are recognised as an expense except where prior increments are included in the asset revaluation reserve for that class of asset in which case the decrement is taken to the reserve to the extent of the remaining increments. Within the same class of assets, revaluation increments and decrements within the year are offset.

Land under roads
Council recognised the value of land under roads for the first time in the 2015 financial statements. Land under roads is recognised at fair value in accordance with AASB 1051 Land under Roads.

9. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand, deposits at call, and other highly liquid investments with original maturities of six months or less, net of outstanding bank overdrafts.

10. FINANCIAL ASSETS

Managed funds are valued at fair value, being market value, at balance date. Any unrealised gains and losses on holdings at balance date are recognised as either a revenue or expense.

11. INVESTMENTS IN WATER CORPORATION

Council's investment in TasWater is valued at its fair value at balance date. Fair value was determined by using Council's ownership interest against the water corporation's net asset value at balance date based on Council's equity portion for voting purposes as set out in Schedule 2 of TasWater's constitution. Council has an ownership interest of 0.43% in the corporation. Any unrealised gains and losses are recognised through the Statement of Comprehensive Income to a financial assets available for sale Reserve each year.

12. INVESTMENTS

Investments, other than investments in associates and TasWater, are measured at cost.

13. INVESTMENTS IN ASSOCIATES

Council's investment in associates is accounted for by the equity method as Council has the ability to influence rather than control the operations of the entity. The investment is initially recorded at the cost of acquisition and adjusted thereafter for post-acquisition changes in Council's share of the net assets of the entity. Council's share of the financial result of the entity is recognised in the Statement of Comprehensive Income.

14. SECURITY DEPOSTITS

Amounts received as deposits controlled by Council are recognised as trust funds until they are returned or forfeited.

15. EMPLOYEE BENEFITS

Short term obligations
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long term employee benefit obligations
The liability for long service leave and annual leave which is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Sick leave
No accrual is made for sick leave as Council experience indicates that, on average, sick leave taken in each reporting period is less than the entitlement accruing in that period, and this experience is expected to recur in future reporting periods. Council does not make payment for untaken sick leave.

Defined benefit plans
A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the statement of financial position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. However, when this information is not reliably available, Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans i.e. as an expense when it becomes payable.

Council makes superannuation contributions for a number of its employees to the Quadrant Defined Benefits Fund, which is a sub fund of the Quadrant Superannuation Scheme. The Quadrant Defined Benefits Fund has been classified as a multi-employer sponsored plan. As the Fund's assets and liabilities are pooled and are not allocated by employer, the Actuary is unable to allocate benefit liabilities, assets and costs between employers. As provided under paragraph 32(b) of AASB 119 Employee Benefits, Council does not use defined benefit accounting for these contributions.

16. LEASES:

Finance leases as lessee
Leases of assets where substantially all the risks and rewards incidental to ownership of the asset, are transferred to the Council are classified as finance leases. Finance leases are capitalised, recording an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments, including any guaranteed residual value. Lease payments are allocated between the reduction of the lease liability and the interest expense. Leased assets are depreciated on a straight line basis over their estimated useful lives to Council where it is likely that Council will obtain ownership of the asset or over the term of the lease, whichever is the shorter. Council does not currently have any finance leases.

Operating leases as lessee
Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Lease

income from operating leases where Council is a lessor is recognised in income on a straight- line basis over the lease term.

Operating leases as lessor
Council is a lessor and enters into agreements with a number of lessees. These include commercial and non-commercial agreements. Where leases are non-commercial agreements, these are generally with not for profit, such as sporting, organisations. In these cases subsidised or peppercorn rents are charged because Council recognises part of its role is community service and community support. In these situations, Council records lease revenue on an accruals basis and records the associated properties as part of land and buildings within property, plant and equipment. Buildings are recognised at depreciated replacement cost.

Where leases are commercial agreements, but properties leased are part of properties predominantly used by Council for its own purposes, Council records lease revenue on an accruals basis and records the associated properties as part of land and buildings within property, plant and equipment. Buildings are recognised at depreciated replacement cost.

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17. ALLOCATION BETWEEN CURRENT AND NON-CURRENT

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next twelve months, being Council's operational cycle, or if Council does not have an unconditional right to defer settlement of a liability for at least 12 months after the reporting date.

18. AGREEMENTS EQUALLY PROPORTIONATELY UNPERFORMED

The Council does not recognise assets and liabilities arising from agreements that are equally proportionately unperformed in the balance sheet. Such agreements are recognised on an 'as incurred' basis.

19. WEB SITE COSTS

Costs in relation to websites are generally charged as an expense in the period in which they are incurred.

20. GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

21. IMPAIRMENT OF ASSETS

At each reporting date, Council reviews the carrying value of its assets to determine whether there is any indication that these assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the statement of comprehensive income, unless the asset is carried at the revalued amount in which case, the impairment loss is recognised directly against the revaluation surplus in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset. For non-cash generating assets of Council such as roads, drains, public buildings and the like, value in use is represented by the deprival value of the asset approximated by its written down replacement cost.

22. SIGNIFICANT BUSINESS ACTIVITIES

Council is required to report the operating capital and competitive neutrality costs in respect of each significant business activity undertaken by the council. Council will review its activities each year to determine if it has any significant business activities as defined in Treasury guidelines.

23. FUNCTIONS/ACTIVITIES OF COUNCIL

Information regarding the revenue, expenditure and assets attributable to the following activities will be disclosed in the notes to the Council's financial statements.

Community & Youth Services
Tourism and area promotion, economic development, community activities, community development, SES unit and youth services.

Corporate
Administrative staff, financial services, office costs, council chambers, general rates, information technology and contributions to Local Government Association of Tasmania and Cradle Coast Authority.

Governance
Elected members and executive support.

Regulatory
Animal control, By-Law control, building control, land use planning, environmental health, nuisances, public health, immunisations, places of assembly and food premises.

Recreation & Reserves
Recreational grounds, halls & other amenities. Parks, picnic sites, Towns and cemeteries

Roads
Roads, streets, other paving assets, works depot, bridges, stormwater and streetscape development

Waste Management
Household garbage collection & Waste Transfer Stations and cost of deposit into Dulverton Landfill

Other Not Attributed
Government contributions, Fire Levy, Items not fairly allocated to a particular function.

24. REVIEW

This policy is to be reviewed annually and presented to Council's Audit Panel for approval prior to lodgement of Council's financial report for audit.